McCrory
CORPORATION

ANNUAL REPORT 1969

McCrory Corporation—a broadly based retailing enterprise with 1,541 outlets throughout the nation. McCrory operations are:

McCrory-McLellan-Green
One of the largest and most modern variety store chains in the country, with 642 stores in 38 states

Lerner Shops
The largest chain specializing in fashion apparel for women and children, with 386 shops in 39 states, Washington, D.C., and Puerto Rico

OTASCO & Economy Auto Stores
Automotive parts and accessories, outdoor, home and recreational merchandise, with 482 outlets in 12 states

S. Klein
15 full-line department stores selling fashion and staple merchandise in New York, Philadelphia and Washington metropolitan areas

Best & Co.
High fashions for men, women and children in its famous Fifth Avenue store in New York City and in 15 branches from Boston to Washington, D.C.

McCrory Corporation

ANNUAL REPORT 1969

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Annual Meeting

The Annual Meeting of Stockholders will be held in Room 315, Chemical Bank Building, 277 Park Avenue, New York City, on Tuesday, May 26, 1970 at 10:30 a.m., local time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about May 1, 1970, at which time proxies will be solicited by order of the Board of Directors.

Financial Summary

	Fiscal 1969	Fiscal 1968	
Sales	$918,788,000	$855,743,000	+ 7.4%
Income before extraordinary items	$ 14,001,000	$ 12,459,000	+12.4%
Extraordinary items	—	868,000	
Primary earnings per common share			
Before extraordinary items	$2.84	$2.32	+22.4%
Extraordinary items	—	.18	
Fully diluted earnings per common share			
Before extraordinary items	$1.91	$1.52	+25.7%
Extraordinary items	—	.10	
Cash dividends per common share	$1.20	$1.20	

To Our Stockholders:

Fiscal 1969 was the sixth consecutive year in which McCrory Corporation set a new record for earnings. The financial summary on the opposite page indicates far better than words just how successful we were. Highlights were a 7.4 per cent gain in sales, a 12.4 per cent gain in operating income, and a 22.4 per cent gain in primary earnings per share of common stock.

This growth was accomplished in a challenging year. The adversities that beset the national economy during 1969 are well known. They included soaring interest rates, increasingly tight money supply and worsening inflation, resulting in sharply higher wages and rental costs. It is a tribute to the effectiveness of our employees, at every level and in all operations, that the company continued its progress under these conditions. It also demonstrates our fundamental belief at McCrory Corporation that positive accomplishments are the result of the dedicated efforts of our employees, working together toward common goals.

Following this message, you will find individual reports on each McCrory division and subsidiary, and we think that each has a proud record to mark the year just past. During 1969, each of our major operations improved its performance significantly. At the same time, every operation throughout the corporation had accomplishments that we believe will improve our capacity to continue McCrory growth in 1970 and future years.

Challenges of the 70's

We believe that the corporation has been placed on the soundest possible footing from which to meet the continuing challenges of the 70's. At all levels—including store operations, inventory control, merchandising and management—our personnel have the experience, the skills and the strength to continue to forge ahead and to extend McCrory's position as a total retailing complex.

For the future, you can be assured that we do not intend to relax. It is our policy constantly to improve the way we operate, with increased profitability as our goal. We also believe in the continuing necessity of adjusting our methods of operation to specific business conditions. For these reasons, we are currently engaged in a detailed re-examination of our operating systems and procedures. Such an examination has followed each of the previous six years of achievement—and we believe the results of the analysis became translated into improved financial results in each succeeding year.

Management Responsibilities

As Chairman of the Board and Chief Executive Officer—responsibilities I accepted with humility (and some measure of pride, as well) following the May 1969 Annual Stockholders' Meeting—I want to acknowledge the invaluable assistance rendered by Stanley H. Kunsberg in the past year. He brought to his new post as President of McCrory the sound judgment and experience gained in the course of his many years of leadership at Lerner Stores Corporation, culminating as its Chairman of the Board.

We are grateful not only to our personnel, but to our stockholders, our suppliers, and our customers for their support and confidence. We shall do our utmost to preserve the positions of strength which we have achieved, and to continue to move forward.

Sincerely,

S. Neaman
Chairman of the Board

April 10, 1970

McCrory-McLellan-Green Stores

The continuing changes taking place at McCrory-McLellan-Green (MMG) are producing dramatic results. In fiscal 1969, the company's sales increased by 6.1 per cent, to $261.6 million. And its pretax earnings went up by better than 19 per cent, to more than $18 million.

These gains pushed MMG's pretax profits, as a percentage of sales, to 6.9 per cent. Once again, this is a new record.

Why It Excelled

A major reason for the company's excellent progress lies in its sophisticated control over its movement of merchandise, particularly at its distribution center in its York, Pa. headquarters. Last year, the center began using new sortation equipment to handle cartons and other containers, thus doing mechanically what had previously been done manually. The new equipment, which resembles a chairborne ski lift, has substantially reduced operating costs and saved time in getting goods to the company's individual outlets.

MMG also acquired 22 stores in fiscal 1969 and opened 17 others in new locations. As a result, the company now has 642 outlets, of which more than half have restaurant units. Importantly, these restaurants make a substantial contribution to the company's profit.

MMG spent twice as much on remodeling and upgrading its existing stores as it did on establishing new ones. It also broadened its product lines, particularly the apparel and fashion accessories it carries for men, women and children.

Because of the makeup of its clientele, the company is somewhat less subject to fluctuations in the national economy than other businesses. And it is confident of still further growth in sales and earnings in fiscal 1970.

Plans for the Future

The variety store chain will place primary emphasis on making more effective, profitable use of in-store space. And it will continue to improve its control over distribution of goods.

MMG also intends to open 18 new stores, all but one with restaurant units. In addition, it will open its first free-standing cafeteria in order to capitalize on the increasing tendency of Americans to eat more meals away from home. This is an area in which MMG will place even greater emphasis over the long term, although how rapidly it will open such cafeterias will be directly related to some abatement in today's high interest rates and soaring real estate prices.

OFFICERS

President
F. M. Patchen

Senior Vice President
J. F. King—National Store Operations

Vice Presidents
R. A. Elliott—Manpower
C. Gass—National Field Controller
E. B. Hood—National Store Merchandise Manager
H. R. Hughes—Administration
B. A. Jacobi—Real Estate
P. McClellan—Merchandise Controller
H. S. Mortensen—National Restaurant Manager
K. Phillips—Systems and Methods
W. R. Tallman—Head Buyer
R. S. Taub—Movement of Goods

Vice Presidents—Regional Managers
E. J. Luedtke—Region I
T. B. Acker—Region II
O. W. Wheeler—Region III
N. W. Embley—Region IV
N. S. McBrayer—Region V

Assistant to the President
L. S. Schockley—in charge of New York Resident Buying Office

S. Klein Department Stores

OFFICERS

Chairman of the Board
Samuel Neaman

Executive Vice President
Lorence A. Silverberg

Senior Vice Presidents
Samuel S. Brand—Director of Controls
Ben Litwak—General Merchandise Manager

Vice Presidents—Group Merchandise Managers
Perry Bucholtz
Leonard Nacht
David Portnoy

Vice Presidents
David Ganz—Services
Charles Gass—Internal Audit
Robert Geber—Movement of Goods
Stephen Jackel—General Store Manager
Marvin Shenfeld—Systems & Methods
William M. Shuldiner
Joseph Walker—Counsel & Secretary

Controller
Charles Witz

S. Klein continued to make progress in fiscal 1969, becoming a more viable and profitable company. A chief factor in this progress was a decision to put more emphasis on wearing apparel and other soft goods departments, capitalizing on Klein's long-standing reputation for its apparel values. At the same time, the company began de-emphasizing hard goods, which tend to be less profitable, despite their generally higher price tags.

Profits Soared

Not unexpectedly, this important change in emphasis had an effect on Klein's sales, which dropped 2.3 per cent, to $205 million. Pretax profits, however, climbed 49.7 per cent, to $3.4 million.

Klein's increased profitability was also affected by factors other than the emphasis on soft goods. One of them was the company's computer, which began providing new, comprehensive reports to Klein's merchandising and operations divisions. These detailed reports on sales, profits and other facets of the business have given the company far better control over its inventory than it has ever enjoyed in the past. As a result, Klein was able to operate on $9 million less retail inventory than in the previous year.

Klein opened a new store in Wayne, New Jersey in February 1969, then another new store in Hicksville, Long Island last October. These two additions brought Klein's total number of stores to 15. During the current fiscal year, the company will open its sixteenth store in Cherry Hill, New Jersey, near Philadelphia.

During fiscal 1969, the company started a program of remodeling the original S. Klein Department Store on 14th Street in Manhattan. This work will continue in the current year. It has already resulted in the refurbishing of the entire lower level to house two new departments, as well as remodeling of several other floors. Among the chief features of this remodeling has been installation of very unusual, highly flexible floor displays for clothing, as well as other innovative fixtures. These fixtures make it possible to present merchandise more effectively and to use space more efficiently. Similar fixtures will be tested in stores that Klein will build in the future.

Key Role for the Computer

This year, Klein will expand and further develop its present programs to improve the entire organization, both people and procedures, and to exert even greater control over inventory and costs. The computer is one tool that will get even fuller use in 1970, particularly in the area of distribution.

Klein's principal objective will continue to be a further increase in its profit return. This will involve continued analysis of merchandise programs, with the intention of achieving the best possible mixture of merchandise that appeals to customer wants and also yields a satisfactory return.

Best & Co.

In 1969, Best & Co. reinforced its position as one of the most fashion-conscious stores on Fifth Avenue. It opened a third floor Designer Shop, whose Louis XVI decor and stunning fitting rooms provide the perfect background for the fashions of Oscar de la Renta, Chester Weinberg, Bill Blass and other leading American and European designers.

Its new Stage 9 shop, replete with Peter Max pop art and psychedelic sounds and lighting, made a tremendous hit with young people. So successful has Stage 9 been, in fact, that this spring the company will turn its entire Manhasset, Long Island store into a virtual duplicate of its Fifth Avenue Stage 9.

Paris on Fifth Avenue

What's more, the restyling at Best is far from over. This spring, the store will complete modernization of the entire first floor on Fifth Avenue, making it a more contemporary, more functional showcase. This floor houses a new Men's Shop, which includes a boutique that features, on an exclusive basis, the designs of Antonio Cerruti, the internationally famous designer. The boutique closely resembles Cerruti's own establishment at 27 Rue Royale in Paris.

All these developments are having a favorable effect on Best's Fifth Avenue store, which recorded a sales increase of better than 7 per cent in fiscal 1969. Overall sales, however, showed an increase of only 1 per cent because branch store sales continued to lag behind. On total sales of approximately $36 million, Best had a pretax loss of slightly more than 3 per cent. This year, barring a serious downturn in the national economy, it expects both its sales and earnings figures to improve.

The company has embarked on a five-year plan aimed at strengthening its branch operations. Over this period, Best intends to open five to seven new stores, each substantially larger than any of its existing branches. These new stores will replace the existing small branches currently being operated by Best.

A Satellite in Ridgewood

The first of the new satellite stores will be opened in Ridgewood, New Jersey this coming fall. This 62,000-square-foot satellite will replace the present store in Paramus. The new store will be six times larger than the Paramus store and by far the largest of any of Best's existing branches. What's more, it will duplicate the best features of the Fifth Avenue store. Among them: the Designer Shop, the Men's Shop, Stage 9, and, of course, Best's world-renowned Lilliputian Bazaar. The aim is to provide suburban shoppers with the same abundant selection of fashions that are available at Fifth Avenue.

Although it has greatly accentuated its appeal to chic young women, Best continues to carry its full assortments of children's wear, sportswear and updated classics for its customers. Above all, it intends to continue to be a very pleasant place to shop.

OFFICERS

President
Jack Schwadron

Executive Vice President
M. Ronald Ruskin—
General Merchandise Manager

Vice Presidents
Roger Hundley—Store Management
Norman Margolis—Sales Promotion
Alvin Somers—
Merchandise Manager, Children's Division

OTASCO & Economy Auto Stores

Another successful year in its long string of successes has been recorded by OTASCO & Economy Auto Stores. New highs were reached in both sales and earnings.

The Tulsa-based firm recorded sales in excess of $86.6 million, an advance of 8 per cent. And it tallied pretax earnings of more than $7.1 million, an increase of 7.9 per cent.

There were three major reasons behind OTASCO's excellent record for fiscal 1969.

First, the company concentrated on improving the personal service in its stores. The sales personnel did a better job of giving specialized service to satisfy the customer's needs.

An Increase in Installations

Second, the company made strong efforts to increase the amount of installation of external auto parts and accessories, such as mufflers, brakes, shocks, etc. It stepped up the advertising of this service. And more important, it sharply improved the compensation program for the mechanics making the installations. The upshot: a whopping increase in the income obtained from this facet of the business.

Finally, the company expanded many of its lines of merchandise. Assortments were improved in many categories—especially supplies for the home and for recreation and leisure.

OTASCO now boasts a total of 482 outlets—179 of them company-owned, the other 303 franchised. This is an increase of 33 per cent in the number of stores it had upon acquisition by McCrory. What's more, OTASCO now operates in twelve states, versus four a decade ago.

Early in the fall, the company will open a new 470,000-square-foot headquarters and distribution center in Tulsa. The new facility will enable the firm to employ more modern methods and procedures and, in particular, provide better and faster distribution of merchandise to its individual stores.

A New Computer

Later this year, a new computer will be installed with greater capacity and memory, which will enable the company to computerize many activities that are now handled manually. This will also mean that the firm will obtain fuller and faster information about its operations than is presently the case.

OTASCO plans to open several more new stores in fiscal 1970. The exact number will be governed in large part by the ability of the developers to overcome the current high cost of real estate and money.

Despite a deterioration in the national economy, the first two months of the current calendar year were excellent ones for OTASCO. A well-planned sales blueprint for management and merchandising has been programmed for 1970. The entire organization is optimistic about the beginning of the new decade and expects to increase its sales and earnings once again in fiscal 1970.

OFFICERS

Chairman
Maurice Sanditen

Vice Chairman & Chief Executive Officer
Julius Sanditen

Vice Chairman of Executive Committee
Ely G. Sanditen

President
Abe Brand

Vice Presidents
John R. Behl—Economy Division
A. A. McNatt—Retail Division
Edgar Sanditen—Merchandising
Edward Wilkonson—Research and Development

Secretary
Samuel H. Minsky

Treasurer
Herman Sanditen

Assistant Secretary
Mark Colburn

Lerner Shops

In fiscal 1969, Lerner Shops increased its sales better than 16 per cent, to $329 million, and its earnings more than 37 per cent, to $13.8 million. It was the fifth straight year the company had set new records in both areas.

Among the year's other noteworthy developments was the record of the company's existing shops, which boosted their sales better than 13 per cent. This record indicates widespread vitality throughout the company, the nation's largest chain retailer of children's and women's fashions.

Continuing its expansion program, the company closed one store and opened 13 new ones—all in shopping centers. It now operates 386 shops throughout the country and in Puerto Rico, up from 330 five years ago.

Automated Distribution

Its distribution center in Chicago was relocated and rebuilt. Its Denver center is currently being enlarged, and its Los Angeles center is being modernized. This will largely complete modernization of the firm's six regional distribution centers. These largely automated centers enable it to move its merchandise from warehouse to shop with extreme speed and economy.

The apparel chain also replaced the computers in all but one of its regional centers with new third generation computers and has now finished computerization of its entire billing and recordkeeping functions. Already computerized were its accounting and merchandising functions. Every Monday morning, the computer tells the company's merchandising executives, by style, color and category, how many items of each fashion each store sold in the previous week.

The company also elected Harold M. Lane, Jr., its president, to the additional post of chief executive officer. Mr. Lane, who joined the company in 1939, is particularly experienced in merchandising and also thoroughly familiar with operations and data processing. His father, Harold M. Lane, Sr., was elected chairman of the board of directors.

The Year Ahead

What of the future?

In 1970, Lerner Shops expects to open 16 new stores. They will be scattered throughout the country. All will be located in closed mall shopping centers and will feature the glassless display areas that have proved so effective in attracting customers to the company's newer stores.

In addition, the company will remodel a number of its existing stores. In many of them the location of various departments will be changed so as to attract more customers.

The company also plans to intensify its efforts to obtain more executive trainees of the highest caliber and improve its management development program.

Lerner Shops will continue to carry a wide variety of merchandise for women and children of all ages, while appealing particularly to younger women. Reason: These women spend the most on clothes and are also the most fashion-conscious.

Barring a serious recession, the company expects to increase its sales in 1970. It also expects to remain No. 1 in its field.

OFFICERS

President & Chief Executive Officer
Harold M. Lane, Jr.

Chairman of the Board & Executive Committee
Harold M. Lane, Sr.

Vice Chairman of the Executive Committee
Stanley H. Kunsberg

Executive Vice Presidents
Eugene Shaw—Operations
Karl L. Margolis—Merchandise

Vice President & Treasurer
D. John Palladino

Vice President—Merchandise & Secretary
Nathan B. Epstein

Vice Presidents—Regional General Managers
Milton Seegal—Los Angeles Division
Robert L. Krill—Chicago Division
Harold Greene—Denver Division
Melvin J. Redmond—Jacksonville Division
Arnold Friedman—Atlanta Division
Marc J. Reiss—Pittsburgh Division

Vice Presidents—New York Staff
David D. Greenwald—Real Estate
Abraham D. Sperber—Merchandise
Monte A. Wolfson—Merchandise
Tully H. Scheiner—Store Operations
Max J. Miller—Labor Relations
Jacob J. Scher—Transportation & Warehousing
Samuel S. Brand—Systems & Procedures

McCrory CORPORATION AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

	Year Ended January 31, 1970	Year Ended January 31, 1969
Revenues:		
Sales	$918,787,586	$855,742,698
Other—net	4,017,895	4,188,431
	922,805,481	859,931,129
Costs and Expenses:		
Cost of goods sold	661,220,423	622,074,285
Selling, general and administrative expenses	199,468,834	185,648,034
Interest and debt expense	15,549,985	12,721,111
Depreciation and amortization	10,226,336	9,238,876
Federal income taxes	16,903,000	13,840,000
Income applicable to minority interest	5,435,669	3,949,220
	908,804,247	847,471,526
Income Before Extraordinary Items	14,001,234	12,459,603
Extraordinary Items—Gain on sale of securities ($474,750) and operating units ($393,056) net of related income taxes	—	867,806
Net Income	$ 14,001,234	$ 13,327,409
Earnings Per Share of Common Stock:		
Primary:		
Income before extraordinary items	$2.84	$2.32
Net income	$2.84	$2.50
Fully diluted:		
Income before extraordinary items	$1.91	$1.52
Net income	$1.91	$1.62

See Notes to Financial Statements.

McCrory CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

Assets	January 31, 1970	January 31, 1969
Current Assets:		
Cash	$ 11,949,063	$ 16,333,403
Investment in Rapid-American Corporation 7% Debentures, at cost which approximates market	3,457,295	—
Receivables, less allowances ($2,251,426 and $1,623,991)	9,839,994	7,559,718
Merchandise inventories	125,355,762	124,753,129
Prepaid expenses, etc.	5,371,237	5,259,518
Total Current Assets	155,973,351	153,905,768
Investments in and Advances to:		
Rapid-American Corporation, at cost	27,829,740	—
Glen Alden Corporation, at cost	—	34,267,491
McCrory Credit Corporation, at equity	12,250,631	10,766,867
	40,080,371	45,034,358
Property and Equipment	213,372,025	193,505,979
Less accumulated depreciation and amortization	112,085,397	106,707,355
	101,286,628	86,798,624
Other Assets:		
Excess of cost of investments in subsidiaries over related equities	20,627,148	20,627,148
Unamortized debt expense	17,853,470	6,950,359
Deferred stock bonus expense	3,853,720	4,128,971
Mortgages and sundry	1,555,865	1,532,359
Trademarks, deferred charges and unamortized goodwill	4,322,118	4,674,494
	48,212,321	37,913,331
	$345,552,671	$323,652,081

See Notes to Financial Statements.

Liabilities and Stockholders' Equity	1970	1969
Current Liabilities:		
Current maturities of long-term debt	$ 1,713,412	$ 8,555,688
Accounts payable	30,688,704	24,873,504
Accrued expenses and sundry	32,102,521	27,318,887
Accrued Federal income taxes	16,343,183	13,250,419
Total Current Liabilities	80,847,820	73,998,498
Long-Term Debt, less current maturities	128,223,547	81,268,859
Deferred Federal Income Taxes and Other	32,043,272	26,511,015
6½% Convertible Subordinated Debentures	8,331,307	12,048,507
Stockholders' Equity:		
Minority Interest in Subsidiary	19,382,887	14,937,162
McCrory Corporation Stockholders:		
Preferred and preference stocks	16,551,500	17,184,000
Common stock, $.50 par value, authorized 15,000,000 shares; issued 7,090,231 shares and 6,126,829 shares	3,545,115	3,063,414
Capital surplus	72,616,835	53,071,182
Earned surplus	72,979,132	67,252,225
Less treasury common stock 2,697,429 shares and 940,309 shares, at cost and equity in subsidiary's cost of its treasury stock $6,806,840 and $6,808,689	(88,968,744)	(25,682,781)
Total Equity—McCrory Corporation	76,723,838	114,888,040
Total Stockholders' Equity, including minority	96,106,725	129,825,202
	$345,552,671	$323,652,081

(Column heading: January 31,)

See Notes to Financial Statements.

McCrory CORPORATION AND SUBSIDIARY COMPANIES

Statement of Consolidated Surplus

	Year Ended January 31,	
Earned	*1970*	*1969*
Balance, February 1	$67,252,225	$62,152,313
Add (Deduct):		
Net income	14,001,234	13,327,409
Dividends:		
On preferred and preference stocks	(895,922)	(926,696)
On common stock ($1.20 per share)	(5,665,958)	(6,035,210)
Excess of cost of 177,735 and 245,766 shares of treasury stock issued under stock option plans over option price	(1,712,447)	(1,265,591)
Balance, January 31	$72,979,132	$67,252,225

Capital		
Balance, February 1	$53,071,182	$51,846,812
Add (Deduct):		
Excess of principal amount of debentures and par value of preferred and preference stocks converted over par value of common stock issued	4,052,257	334,274
Excess of proceeds over par value of common stock issued on exercise of 796,991 and 3,990 Warrants	15,541,325	77,805
Excess (deficit) of market value over cost of treasury stock issued under stock bonus plans	(49,554)	776,041
Equity in certain transactions of subsidiary	938	35,563
Other—net	687	687
Balance, January 31	$72,616,835	$53,071,182

See Notes to Financial Statements.

Source and Application of Consolidated Financial Resources

	Year Ended January 31, 1970	1969
Source		
Operations:		
Net income	$14,001,234	$13,327,409
Charges not requiring current outlays:		
Depreciation and amortization	10,226,336	9,238,876
Deferred Federal income taxes	3,488,000	4,179,000
Debt expense	1,177,827	1,074,685
Stock bonus plan expense	717,448	465,491
Income applicable to minority interest, less cash dividends of $998,183 and $658,100	4,437,486	3,291,120
	34,048,331	31,576,581
Proceeds on exercise of warrants	15,939,820	79,800
Proceeds on exercise of options	2,951,260	3,671,976
Increase in long-term debt—net	—	454,094
Cost of debentures received in tender offer	6,624,094	—
Other—net	427,473	234,149
Decrease in working capital	4,781,739	—
	$64,772,717	$36,016,600
Application		
Additions to property and equipment—net	$24,714,340	$18,470,582
Dividends paid	6,561,880	6,961,906
Decrease in long-term debt—net (1970 exclusive of $60,000,000 of 7½% debentures issued in exchange offer for shares of treasury common stock)	13,045,312	—
Funds expended in acquisition of 1,950,000 shares of treasury common stock	20,451,185	—
Increase in working capital	—	10,584,112
	$64,772,717	$36,016,600

See Notes to Financial Statements.

McCrory CORPORATION AND SUBSIDIARY COMPANIES

Notes to Financial Statements, January 31, 1970

Principles of consolidation

The consolidated financial statements include all wholly-owned subsidiaries, except McCrory Credit Corporation, and include Lerner Stores Corporation (60.6% owned at January 31, 1970).

McCrory Credit Corporation and equity in instalment accounts sold

McCrory and its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of McCrory and subsidiaries in assigned accounts (the uncollected balances of which amount to $52,405,000 at January 31, 1970) is included in receivables in the consolidated balance sheet. Collections in January 1970 (payable to McCrory Credit Corporation in February 1970) from assigned customers' accounts (net of 10% equity) amounting to $12,720,000 have been deducted from receivables in the consolidated balance sheet. The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings at January 31, 1970 as summarized below:

Accounts receivable, less unearned discount	$61,241,673	
Cash	7,688,320	
Other assets, less other liabilities	3,170,638	$72,100,631
Notes payable to banks	59,850,000	
Notes payable to McCrory and subsidiaries	8,000,000	67,850,000
McCrory's equity		$ 4,250,631

Net income of McCrory Credit Corporation for the years ended January 31, 1970 and 1969 of $483,764 and $710,598, respectively, is included in consolidated income.

Merchandise inventories

Merchandise inventories, at lower of cost (mainly retail method) or market, consist of the following:

	January 31, 1970	January 31, 1969
Merchandise at stores and warehouses:		
At retail method	$ 88,829,623	$ 90,418,939
At first-in, first-out cost	23,252,754	20,628,188
Merchandise in transit, at warehouses and at restaurants—at cost	12,831,814	13,382,490
Raw materials, including merchandise at contractors—at specific invoice cost or replacement cost	441,571	323,512
Total	$125,355,762	$124,753,129

Investments

CONSOLIDATED SUBSIDIARIES:

Lerner Stores Corporation—McCrory owned at January 31, 1970 and 1969, 2,558,815 shares of Lerner common stock (60.6%).

At January 31, 1970 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of Lerner ($8,720,000) and securities of S. Klein Department Stores, Inc. ($11,907,148). Such excess purchase costs have been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, management adopted the policy of not amortizing these excess purchase costs, so long as there is no diminution in value of the related investments.

RAPID-AMERICAN CORPORATION (parent company):

McCrory owned at January 31, 1970, 597,058 shares of Rapid-American Corporation common stock, 1,194,116 callable warrants to purchase Rapid common stock at $35 per share, expiring May 15, 1994, (said common stock and warrants had an aggregate market quotation value of $18,500,000 at January 31, 1970) and $4,985,928 principal amount of Rapid 7% subordinated debentures, due May 15, 1994 (such debentures are included in current assets in the accompanying consolidated balance sheet). The Rapid securities were received in March 1969 in connection with a tender offer by Rapid for common stock of Glen Alden Corporation. During the year ended January 31, 1970, $4,567,000 principal amount of Rapid 7% debentures were sold for the approximate cost thereof ($3,167,000).

Property and equipment

Property and equipment, stated at cost, consist of the following:

	January 31, 1970	January 31, 1969
Furniture and fixtures and leasehold improvements	$197,162,068	$179,987,104
Store properties, warehouses and leased facilities	16,209,957	13,518,875
Total	$213,372,025	$193,505,979

McCrory and its subsidiaries provide for depreciation and amortization generally on the straight line method over the estimated service lives of the properties.

Long-term debt

Long-term debt at January 31, 1970 and maturities due within one year consisted of the following:

	Current Maturities	Long-Term Debt
5½% sinking fund subordinated debentures, due 1976 (a)	—	$ 23,187,640
5% junior subordinated notes, due April 1, 1970	$ 597,058	—
5% junior sinking fund subordinated debentures, due July 15, 1981 (b)	219,220	12,604,230
Notes payable to banks under Revolving Credit Agreement (c)	—	20,300,000
6½% sinking fund subordinated debentures, due September 1, 1982(d)	94,744	9,724,086
7½% sinking fund subordinated debentures, due May 15, 1994 (e)	—	60,000,000
Sundry	802,390	2,407,591
Total	$1,713,412	$128,223,547
6½% convertible subordinated debentures, due February 15, 1992(f)	—	$ 8,331,307

(a) Exclusive of $7,539,080 held in treasury which is available for sinking fund payments. Sinking fund requirements in each year are as follows: 1971—$2,048,448, 1972 through 1976—$3,277,517, with a final payment of $12,290,687 due on August 15, 1976.

(b) Exclusive of $40,390 held in treasury which is available for sinking fund payments. Annual sinking fund payments are 2% of the aggregate principal amount outstanding on January 15, 1970. Such payments at the 2% rate continue each succeeding year to and including 1974 and at the rate of 5% with respect to each year thereafter to January 30, 1980.

(c) Revolving Credit Agreement: 90 day promissory notes to banks, with interest at current prime rate, renewable at the option of the Company at each maturity date to January 31, 1972. It is the Company's present intention to renew these notes until January 31, 1972.

(d) Sinking fund requirements in each year are as follows: 1970 (1%), 1971-1973 (2%), 1974-1976 (3%), 1977-1979 (4%) and 1980-1981 (5%).

(e) Required annual sinking fund payments commence in 1981 and continue through 1993.

(f) Convertible at the option of the holder at the conversion price of $25 principal amount of debentures per share of common stock to and including February 14, 1972, $30 to and including February 14, 1977 and $35 to and including February 15, 1992. During the year ended January 31, 1970 $3,717,200 principal amount of these debentures were converted into 148,688 shares of common stock.

The aggregate of long-term debt maturing during the five years ending January 31, 1975 is approximately as follows: 1971, $1,713,000 (included in current liabilities); 1972, $911,000; 1973, $1,792,000; 1974, $3,892,000 and 1975, $4,374,000. The year 1972 does not include $20,300,000 of notes payable to banks under Revolving Credit Agreement (see (c) above).

Agreements covering certain indebtedness of McCrory contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1970 approximately $17,000,000 of consolidated surplus was free of restrictions.

Federal income taxes

For Federal income tax purposes guideline methods of computing depreciation and the instalment method of reporting certain sales have been used. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

Preferred and preference stock and common stock purchase warrants

At January 31, 1970, 165,515 shares of $100 par value preferred and preference stock were outstanding (aggregate par value $16,551,500; aggregate redemption amount $17,981,839) and 210,882 shares of common stock were reserved for the conversion thereof, as follows:

Class of Stock	Shares Authorized	Shares Outstanding	Redemption Price	Conversion Rate	Common Shares Reserved
3½% cumulative convertible preferred	2,366	2,366	$104	5 for 1	11,830
$6 cumulative convertible preference	94,725	94,725	115	3/14 for 1	20,298
5½% cumulative subordinated preference B	3,050	2,518	100	5 5/9 for 1*	13,989
4½% cumulative subordinated preference B	66,144	65,906	100	2 1/2 for 1*	164,765
Total		165,515			210,882

* Until December 31, 1970, at which date conversion right ceases.

At January 31, 1970 there were outstanding 297,205 Warrants (expiring March 15, 1976) to purchase McCrory common stock at $20 per share and 2,937,273 Warrants (expiring March 15, 1981) to purchase McCrory common stock at $20 per share through March 15, 1976, and at $22.50 per share through March 15, 1981.

During the year ended January 31, 1970, 6,325 shares of preferred and preference stock were converted into 17,723 shares of common stock.

Pension Plans

McCrory and Lerner have non-contributory pension plans covering certain of their employees. Pension costs accrued are funded as required. For the years ended January 31, 1970 and 1969 these costs amounted to $662,000 and $620,000, respectively. No contributions were required for one plan for these years since the amounts accumulated in the trust fund exceeded the liability and vested benefits, as computed by the consulting actuary. The past service costs in respect of certain of these plans was approximately $2,620,000, at January 31, 1970, which is being amortized over a 29-year period.

Stock option and stock bonus plans

Shares of McCrory's common stock reserved for issuance under stock option plans are tabulated below:

	1960 and 1961 Plans	1964 Plan	1967 Plan
Option price range	$13.30– $21.50	$13.125– $20.125	$19.625– $32.625
Shares			
Outstanding February 1, 1969	43,200	324,165	141,959
Transactions during year ended January 31, 1970:			
Granted	—	—	18,750
Exercised	(2,050)	(160,935)	(14,750)
Cancelled, etc.	—	(11,500)	(23,438)
Outstanding January 31, 1970	41,150	151,730	122,521
At January 31, 1970:			
Exercisable	41,150	151,730	71,015
Available for grant	None	73,955	46,888

During the year ended January 31, 1970 options for 177,735 shares were exercised at an aggregate option price of $2,951,000. In addition, 285 shares of treasury stock were issued to employees for common stock service awards.

During the year ended January 31, 1970 McCrory under its management stock bonus plans allocated and issued 27,500 shares of its common stock, 12,640 shares were repurchased and 6,240 shares are available for allocation. The excess of market value of such shares on the date of allocation over the par value thereof is being charged to income ratably over periods not exceeding eight years.

Earnings Per Share of Common Stock

Primary earnings per share is based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share have been computed assuming conversion of the 6½% convertible subordinated debentures and the 3½%, 4½% and 5½% convertible preferred and preference stock. This calculation also assumes the issuance of additional common shares on exercise of stock options and warrants with a portion of the proceeds used to acquire treasury shares and the balance used to reduce outstanding debt.

Other matters

There are several claims pending against McCrory and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined, but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same. At January 31, 1970 the minimum annual rentals upon property leased to McCrory and its subsidiaries under leases expiring after January 1973 amount to approximately $39,600,000 plus, in certain instances, real estate taxes, insurance, etc.

McCrory CORPORATION AND SUBSIDIARY COMPANIES

Accountants' Opinion

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Board of Directors and Stockholders of
McCrory Corporation:

We have examined the financial statements of McCrory Corporation and subsidiary companies for the year ended January 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Lerner Stores Corporation and its subsidiaries; however, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, consolidated surplus and source and application of consolidated financial resources present fairly the financial position of McCrory Corporation and subsidiary companies at January 31, 1970 and the results of their operations and the source and application of their consolidated financial resources for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 20, 1970

Haskins & Sells

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AUDITORS	Haskins & Sells, New York, N.Y.	
GENERAL COUNSEL	Rubin Wachtel Baum & Levin, New York, N.Y.	
TAX ADVISORS	Hanigsberg, Delson & Broser, New York, N.Y.	
PUBLIC RELATIONS	Rubenstein, Wolfson & Co., New York, N.Y.	
TRANSFER AGENTS	Common Stock 5½% Preference B Stock 4½% Preference B Stock	Chemical Bank and First National Bank of Chicago
	3½% Preferred Stock $6 Preference Stock	Morgan Guaranty Trust Company of New York and First National Bank of Chicago
REGISTRARS	Common Stock 5½% Preference B Stock	Morgan Guaranty Trust Company of New York and Continental Illinois National Bank and Trust Company of Chicago
	4½% Preference B Stock	The Chase Manhattan Bank and Continental Illinois National Bank and Trust Company of Chicago
	3½% Preferred Stock $6 Preference Stock	Chemical Bank and Continental Illinois National Bank and Trust Company of Chicago
EXECUTIVE OFFICES	711 Fifth Avenue, New York, N.Y. 10022	